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SUBJECT: IRAQI OIL: MIXED MESSAGES FROM SOUTH OIL ON THE
BID ROUND AND INTERNATIONAL OIL FIRMS

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¶1. (SBU) SUMMARY: In recent meetings, stakeholders from the GOI as well as international oil companies (IOC) and service providers (SP) offered divergent insight and opinions on the developments within the oil sector in Iraq. In a meeting on July 20, South Oil Company (SOC) Director General Fayed Nima expressed his firm opposition to the bid round and the BP/CNPC agreement but welcomed the participation of IOCs and SPs in a technical assistance role. Nima was fired from his position on July 30, which will remove one obstacle to the BP/CNPC deal moving forward. In a separate meeting July 24, BP executives reported they had made progress towards a contract during their first negotiations with the Ministry of Oil since the June 30 bid results, although SOC did not participate in the talks. The Ministry hopes to complete negotiations with BP/CNPC within a month; BP expects it will take at least two months, but is optimistic that the deal will go forward. END SUMMARY.

SOC on BP/CNPC bid for Rumaila: "Nothing to discuss"

¶2. (SBU) EMIN met with SOC DG Fayed Nima at SOC offices in Basra on July 20. With executives from BP and CNPC due in country that the same week for their first talks since winning the rights to develop the Rumaila field at the Ministry of Oil, s first bid round on June 30 (reftel), EMIN asked Nima whether he would engage in the negotiations. Nima, who has publicly aired his complaints about the bid round process, offered a long explanation of why SOC would not engage with BP/CNPC on the terms used in the bid round and declared that he had "nothing to discuss." Nima claimed that the first bid round was unconstitutional because the MoO failed to follow proper procedures, including obtaining necessary approvals for the bid round and model contracts from the parliament and relevant ministries. Nima was quick to point out however, that regarding Iraqi engagement with IOCs, SOC was "against the procedure, not the concept" and welcomed IOC participation in the development of fields not currently producing (i.e., Nima supports the planned second bid round). He later added that he did not feel the next round needed as many bidders or should be as open to public scrutiny.

¶3. (SBU) Nima also mentioned that establishment of the Iraqi National Oil Company (INOC) and its subsidiaries was important and that he supported the evolution of MoO into a regulatory body. The February 2009 Iraq oil symposium, at which Nima participated, recommended restarting INOC as one of the top priorities to rebuild the Iraqi oil sector. (Note: the Council of Ministers on July 28 approved a draft version of the INOC Law, one of the package of four laws commonly referred to as the Hydrocarbons Laws.)

¶4. (SBU) Asked about the local reaction to the BP/CNPC agreement, Nima claimed that neither SOC workers nor most Basra residents support the deal.

Engaging Service Providers

15. (SBU) Noting ongoing SOC discussions with service companies Baker-Hughes, Schlumberger, Halliburton and Weatherford, Nima expressed his support for the expertise that each firm could bring to the table in assisting SOC in its goal to increase production. Nima was confident in stating that with technical service assistance, SOC could double production in two years if given the authority and funding from MoO. (Note: The MoO signed a \$42 million Qfunding from MoO. (Note: The MoO signed a \$42 million service contract with Halliburton to complete work with the Maysan Oil Company. This is Halliburton's first contract in Iraq since the company completed its contracts with the USG in 2005.) In addition to working closely with oil service firms, Nima expressed interest in engaging IOCs themselves on short-term technical service contracts (maximum ten years) to assist SOC on their existing fields. But he drew a clear distinction between straight service contracts and the hybrid required under the terms of the first bid round, which requires the SOC and the IOC (i.e., BP/CNPC consortium for the Rumaila field) to jointly form a new operating company to work the field.

16. (SBU) In a separate meeting, Basra Investment Commission Director Dr. Haider al Fadhel informed EMIN that Baker-Hughes had received use of an office building from SOC and planned to construct a "\$50 Million dollar facility near Rumaila." This facility will act as a training site to qualify Iraqi MoO employees on modern Baker-Hughes equipment. Additionally, it will allow Baker-Hughes to provide the necessary support services for their equipment and teams working in country. Baker-Hughes has previously informed Emboffs of the company's intent to build such a facility and that it represents a substantial increase in the level of

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engagement and commitment by the firm in Iraq.

SERP moving forward

17. (SBU) Regarding the status of the Southern Export Redundancy Project (SERP) that will replace Iraq's offshore fueling points and the feeder pipelines, Nima expressed GOI gratitude for USG efforts to move the project forward. He reported that the project is on schedule, with no major issues, and that the MoO is providing necessary funding. He also reported that planning for the GOI's parallel project for onshore facilities is moving forward, but was not yet funded. In total, the two projects will cost approximately \$5 billion and increase Iraq's southern export capacity from approximately 1.8 mmbpd to 4.5 mmbpd. The MoO estimates that it can complete both halves of the project within five years.

BP Executives report progress

18. (SBU) EMIN and members of the embassy oil team met with BP executives on July 24, following two days of BP and CNPC negotiations at the MoO. The BP team was led by Michael Townshend, President of BP's Middle East and Pakistan division who is leading the Iraq investment for BP and intends to move to Baghdad later this year to open and run BP's Iraq operations (BP intends to establish offices in both Baghdad and Basra). Townshend and his team reported progress during their talks. Of note: Oil Minister Shahrستاني was personally involved throughout two days of talks, and frequently intervened in the discussion to overrule subordinates who raised objections to BP and CNPC requests. Shahrستاني said he wants to see contract negotiations complete by the end of August; Townsend believes this is unrealistic, but thought that a deal could be done as soon as late September. While optimistic about eventual success, the BP team said that many issues need to be resolved, most of which center on governance and the structure of the joint entity that BP/CNPC will establish with SOC. Townsend was not troubled by SOC's failure to participate in the negotiations. The next round of talks

will take place in Baghdad in early August. Townsend promised to remain in close contact with the embassy throughout the process, and specifically requested embassy insights on Iraq-Kuwait border issues, both land and maritime (Note: The Rumaila field straddles the land border; access to Umm Qasr port will be essential for BP/CNPC to import equipment needed to ramp up production. End Note)

Nima goes

¶9. (SBU) On July 30, to the surprise of few, the Oil Ministry fired Fayed Nima from his position as DG at SOC. His replacement is Diya Jafar Al-Mosawi, previously head of SOC operations. Mosawi will be the SOC,s third DG this year.

Comment

¶10. (SBU) Nima's departure and the choice of his replacement surely were approved by PM Maliki himself. We have no immediate information on Mosawi, but expect that he will engage in the negotiations with BP/CNPC. Even if he does not personally support the bid round process, as many MoO technocrats do not, he is likely to be less vocal in his opposition than Nima was.

¶11. (SBU) Regarding Nima,s objections to the legality of the bid round: questioning of the constitutionality of the first bid round on producing fields but not the second bid round is disingenuous. Law 97 of 1967 states that all contracts for the development of Iraqi oil fields must be accompanied by approving legislation from parliament. The MoO contends that Qapproving legislation from parliament. The MoO contends that the first bid round contracts are not field development contracts since the international oil companies will be conducting services for the regional oil companies. Most legal experts consider this defense tenuous at best when applied to the lesser and non-developed second bid round fields. On a constitutional basis, the second bid round contracts will be more suspect than the first. Nima's disagreement with the first bid round contracts probably represents more of a "pride" reaction than a legal judgment; many in the MoO believe that they can rebuild Iraq's oil sector with minimal help from international oil companies.
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